Alberta

2013-14 **First Quarter**
Fiscal Update and Economic Statement

August 2013

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NOTE: *Amounts presented in tables may not add to totals due to rounding.*

Alberta Treasury Board and Finance

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ACTUAL RESULTS

For the first three months of 2013–14

Method of Consolidation

The *2013-14 First Quarter Fiscal Update and Economic Statement* reports on the same scope, using the same method of consolidation, as presented in *Budget 2013*.

The results of all government departments, funds and agencies, except those designated as government business enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of provincial agencies designated as government business enterprises are included on the modified equity basis, the equity being computed in accordance with International Financial Reporting Standards applicable to those entities.

The accounts of the Alberta Innovates corporations and the Crown-controlled SUCH sector organizations such as school boards, universities, colleges, technical institutes, and Alberta Health Services that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are consolidated on a line-by-line basis in the consolidated financial statements forming part of the *Government of Alberta Annual Report*.

Basis of Financial Reporting

The consolidated fiscal summary reports revenue (including gains from disposal of tangible capital assets), expense (including amortization, loss on disposal and write-down of tangible capital assets), and surplus / (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Expense includes the province's cash payments towards the unfunded pension liabilities. Expense excludes the change in the unfunded pension liabilities, which is a non-cash expense that does not affect borrowing requirements.

Debt servicing costs include interest payable, and amortization of issue costs and discounts / premiums on debt issues.

Compliance with Legislation

The *Fiscal Management Act* requires reporting on the actual results of the fiscal plan for the first three months of the fiscal year (April 1 to June 30), on or before August 31. The Act gives the President of Treasury Board and Minister of Finance discretion over the form of the report.

The *2013-14 First Quarter Fiscal Update and Economic Statement* provides comparisons between the three month estimates and actual results for: revenue and operational expense; the operational surplus / (deficit); the Capital Plan; financing (borrowing) requirements. Also included are an estimate for the year-end balance of the Contingency Account, to indicate the Province's net financial position, and updated Alberta and global economic outlooks, with associated assumptions. This report also contains an analysis of the economic impact of the late June flooding in southern Alberta.

Under the *Fiscal Management Act*, operating expense increases, excluding those for dedicated revenue-operating expense, collective bargaining or other remuneration settlements, or settlements with First Nations, are limited to 1% of total budgeted ministry operating expense. Actual operational expense for a fiscal year also cannot exceed operational revenue plus any amounts allocated from the Contingency Account.

This report, and results for the first three months of 2013-14, are in compliance with the requirements of the *Fiscal Management Act*.

2013–14 FIRST QUARTER FISCAL UPDATE

Operational Plan Highlights

Actual results for the first three months of 2013-14 produced an operational surplus of $715 million, $323 million higher than estimated in *Budget 2013*. The improvement was split between higher revenue and lower expense.

Operational Revenue for the first three months was $9,926 million, $211 million higher than expected.

- Resource revenue was $1,767 million, $63 million higher, mainly due to the impact of stronger-than-expected oil prices in the first quarter.
- Investment income was $96 million better than expected, mainly due to healthy equity market returns early in the fiscal year.
- Other notable revenue variances after the first three months include a $73 million increase in agriculture insurance premiums and a $10 million increase in net liquor revenue. Most other variances reflect timing differences that may re-adjust during the year, including those related to federal infrastructure transfers.

Operational Expense for the first three months was $9,211 million, a decrease of $113 million from the three month estimate, due mainly to lower operating expense partly offset by provision of in-year disaster / emergency assistance.

- Operating expense was lower than estimated by $170 million primarily due to timing of grant payments in Health, timing of endowment fund spending in Treasury Board and Finance, and to industry contributions for oil sands monitoring being provided directly to the monitoring entity instead of flowing through government. These are partially offset by increases in Human Services, Energy, and Enterprise and Advanced Education, for social programs, higher crude oil marketing costs, and to support the freeze on post-secondary tuition, and to increases due to timing of grants, primarily for policing, school boards and post-secondary institutions.
- Disaster / emergency assistance of $104 million was provided primarily for forest-fire fighting and municipal flood support. The First Quarter Actuals include $50 million provided to the town of High River, but no other implications of the June 20th southern Alberta flood.

The Contingency Account balance on June 30, 2013 was $2,997 million, and by year end is estimated at between $2 billion to $3 billion. The 2013-14 year-end operational results could range from a surplus of $250 million to a deficit of $500 million. Neither of these ranges factor in other costs of southern Alberta flood relief or related revenue from federal assistance.

OPERATIONAL PLAN SUMMARY[a]

(millions of dollars)

	2013-14				2012-13	
	Budget	3 Month Estimate	3 Month Actual	Change from Estimate	3 Month Actual	Change
Total Revenue	38,732	9,950	10,104	155	9,317	787
Less:						
Revenue received for capital purposes	(522)	(105)	(68)	37	(91)	23
Investment income retained by Heritage Fund	(297)	(74)	(67)	7	(73)	6
Allocation for Capital Plan debt servicing costs	(238)	(55)	(43)	12	(34)	(9)
Operational Revenue	37,675	9,716	9,926	211	9,119	807
Operational Expense						
Operating expense	36,942	8,973	8,803	(170)	8,334	469
Less in-year savings	(400)	-	-	-	-	-
Operating expense (net of in-year savings)	36,542	8,973	8,803	(170)	8,334	469
Disaster / emergency assistance	200	7	104	97	71	33
Amortization / inventory consumption / loss on disposals	982	237	214	(23)	186	28
General debt servicing costs	402	107	90	(17)	90	-
Total Operational Expense	38,126	9,324	9,211	(113)	8,681	530
Operational Surplus / (Deficit)	(451)	392	715	323	438	277

[a] For fiscal policy purposes under the *Fiscal Management Act*. Does not include revenue or expense of Crown-controlled SUCH sector organizations or Alberta Innovates corporations, or changes in pension liabilities. 2013-14 Budget revenue and operating expense have been increased by $120 million, reflecting changed accounting policy for an allowance for doubtful accounts for corporate income tax, now included in expense instead of being deducted from revenue. 2012-13 three month Actual revenue and operating expense have been increased by $10 million, reflecting changed accounting policy for crude oil transportation and marketing costs, now included in expense instead of being deducted from crude oil royalty revenue.

REVENUE

(millions of dollars)

	2013-14				2012-13	
	Budget	3 Month Estimate	3 Month Actual	Change from Estimate	3 Month Actual	Change
Income Taxes						
Personal income tax	10,001	2,500	2,485	(15)	2,278	207
Corporate income tax	4,943	1,206	1,190	(16)	1,019	171
	14,944	3,706	3,675	(31)	3,298	377
Other Taxes						
Education property tax	1,835	459	462	3	436	26
Tobacco tax	920	230	224	(6)	231	(7)
Fuel tax	900	225	218	(7)	204	14
Insurance taxes	333	83	88	5	2	86
Freehold mineral rights tax	152	38	30	(8)	36	(6)
Tourism levy	85	21	20	(1)	19	1
	4,225	1,056	1,041	(15)	929	112
Non-Renewable Resource Revenue						
Bitumen royalty	3,367	769	732	(37)	753	(21)
Crude oil royalty	1,615	440	547	107	536	11
Natural gas and by-products royalty	965	245	260	15	228	32
Bonuses and sales of Crown leases	1,148	211	181	(30)	353	(172)
Rentals and fees	145	36	44	8	42	2
Coal royalty	10	3	4	1	(13)	17
	7,250	1,704	1,767	63	1,901	(134)
Transfers from Government of Canada						
Canada Health Transfer	2,597	649	658	9	572	86
Canada Social Transfer	1,374	343	345	2	327	18
Agriculture support programs	319	197	200	3	177	23
Labour market agreements	174	43	53	10	56	(3)
Infrastructure support	370	74	40	(34)	77	(37)
Other	281	67	60	(7)	78	(18)
	5,115	1,373	1,358	(15)	1,285	73
Investment Income						
Alberta Heritage Savings Trust Fund	1,368	342	416	74	176	240
Endowment funds	234	58	74	16	42	32
Alberta Capital Finance Authority	279	70	70	-	63	7
Contingency Account	63	16	22	6	109	(87)
Agriculture Financial Services Corporation	124	28	28	-	27	1
Other	77	20	20	-	18	2
	2,145	534	630	96	436	194
Net Income from Government Business Enterprises						
AGLC - Gaming / lottery	1,484	371	372	1	356	16
AGLC - Liquor	718	180	189	10	186	3
Alberta Treasury Branches	250	62	66	4	56	10
Other	26	7	6	(1)	7	(1)
	2,478	620	633	14	605	28
Premiums, Fees and Licences						
Motor vehicle licences	485	120	122	2	117	5
Crop, hail and livestock insurance premiums	313	257	330	73	288	42
Energy industry levies	203	194	180	(14)	138	42
Land titles	85	21	22	1	23	(1)
Land and grazing	69	17	16	(1)	22	(6)
Supplementary health benefits premiums	53	13	13	-	13	-
Other	364	94	67	(27)	42	25
	1,572	716	750	34	644	106
Other						
AIMCo investment management charges	167	42	43	1	64	(21)
Fines and penalties	126	31	34	3	34	-
Refunds of expense	122	29	35	6	-	35
Climate change and emissions management	60	15	25	10	14	11
Miscellaneous	528	124	112	(12)	108	4
	1,003	241	249	8	220	29
Total Revenue	38,732	9,950	10,104	155	9,317	787

OPERATING EXPENSE BY MINISTRY[a]

(millions of dollars)

	2013-14				2012-13	
	Budget	3 Month Estimate	3 Month Actual	Change from Estimate	3 Month Actual	Change
Investing in Families and Communities						
Culture	162	40	39	(1)	40	(1)
Health	17,048	4,262	3,952	(310)	3,827	125
Human Services	4,246	1,026	1,116	90	1,016	100
Justice and Solicitor General	1,253	350	398	48	352	46
Municipal Affairs	433	171	140	(31)	160	(20)
Tourism, Parks and Recreation	162	40	38	(2)	39	(1)
Securing Alberta's Economic Future						
Education	6,210	1,421	1,458	37	1,398	60
Enterprise and Advanced Education	2,682	644	687	43	629	58
Infrastructure	504	121	129	8	128	1
Service Alberta	243	57	55	(2)	49	6
Transportation	478	115	103	(12)	101	2
Treasury Board and Finance	1,381	315	287	(28)	216	71
Advancing World-leading Resource Stewardship						
Aboriginal Relations	167	40	34	(6)	32	2
Agriculture and Rural Development	845	99	105	6	116	(11)
Energy	439	99	115	16	92	23
Environment and Sustainable Resource Development	478	120	101	(19)	97	4
International and Intergovernmental Relations	37	9	8	(1)	5	3
Other						
Executive Council	51	13	12	(1)	11	1
Legislative Assembly	122	31	25	(6)	26	(1)
Total Operating Expense	36,942	8,973	8,803	(170)	8,334	469

[a] 2012-13 three month Actual numbers have been restated to reflect the *Budget 2013* organization of government departments.

DISASTER / EMERGENCY ASSISTANCE

(millions of dollars)

	2013-14				2012-13	
	Budget	3 Month Estimate	3 Month Actual	Change from Estimate	3 Month Actual	Change
Agriculture and Rural Development	2	-	1	1	-	1
Environment and Sustainable Resource Development	-	-	49	-	64	(15)
Municipal Affairs	27	7	54	47	7	47
Unallocated	171	-	-	-	-	-
Total Disaster / Emergency Assistance	200	7	104	97	71	33

CAPITAL AMORTIZATION

(millions of dollars)

	2013-14				2012-13	
	Budget	3 Month Estimate	3 Month Actual	Change from Estimate	3 Month Actual	Change
Investing in Families and Communities						
Culture	3	1	1	-	1	-
Health	17	4	4	-	4	-
Human Services	11	3	3	-	3	-
Justice and Solicitor General	25	6	5	(1)	2	3
Municipal Affairs	30	7	7	-	7	-
Tourism, Parks and Recreation	18	5	4	(1)	4	-
Securing Alberta's Economic Future						
Education	3	-	1	1	1	-
Enterprise and Advanced Education	5	1	1	-	1	-
Infrastructure	102	26	21	(5)	20	1
Service Alberta	45	11	10	(1)	11	(1)
Transportation	435	109	104	(5)	99	5
Treasury Board and Finance	22	6	3	(3)	2	1
Advancing World-leading Resource Stewardship						
Agriculture and Rural Development	16	4	4	-	4	-
Energy	23	6	5	(1)	5	-
Environment and Sustainable Resource Development	37	9	7	(2)	7	-
Other						
Legislative Assembly	1	-	-	-	-	-
Total Amortization Expense	795	198	179	(19)	170	9

INVENTORY CONSUMPTION

(millions of dollars)

	2013-14				2012-13	
	Budget	3 Month Estimate	3 Month Actual	Change from Estimate	3 Month Actual	Change
Investing in Families and Communities						
Culture	1	-	-	-	-	-
Health	47	12	6	(6)	8	(2)
Human Services	1	-	-	-	-	-
Securing Alberta's Economic Future						
Education	11	2	4	2	5	(1)
Infrastructure	77	19	18	(1)	-	18
Service Alberta	9	2	3	1	3	-
Transportation	40	4	4	-	-	4
Treasury Board and Finance	1	-	-	-	-	-
Advancing World-leading Resource Stewardship						
Environment and and Sustainable Resource Development	1	-	-	-	-	-
Total Inventory Consumption	187	39	35	(4)	16	19

DEBT SERVICING COSTS

(millions of dollars)

	2013-14				2012-13	
	Budget	3 Month Estimate	3 Month Actual	Change from Estimate	3 Month Actual	Change
General						
Agriculture and Rural Development						
Agriculture Financial Services Corporation	75	25	17	(8)	16	1
Treasury Board and Finance						
General government	315	79	70	(9)	71	(1)
Municipal Affairs						
Alberta Social Housing Corporation	12	3	3	-	4	(1)
	402	107	90	(17)	90	-
Capital Plan						
Education						
Alberta Schools Alternative Procurement P3 financing costs	27	6	7	1	5	2
Treasury Board and Finance						
Direct borrowing for capital purposes	144	36	20	(16)	13	7
Transportation						
Ring road P3 financing costs	67	13	15	2	16	(1)
	238	55	43	(12)	34	9
Total Debt Servicing Costs	640	162	133	(29)	124	9

2013–14 FINANCING REQUIREMENTS

(millions of dollars)

	2013-14				2012-13	
	Budget	3 Month Estimate	3 Month Actual	Change from Estimate	3 Month Actual	Change
Financing Requirements / Completed to Date						
Direct borrowing for capital purposes	3,190	798	494	(304)	-	494
Term debt borrowing for provincial corporations:						
Agriculture Financial Services Corporation	365	90	-	(90)	56	(56)
Alberta Capital Finance Authority	3,385	845	1,576	731	915	661
Alberta Treasury Branches	400	100	500	400	250	250
Total Financing Requirements / Completed to Date	7,340	1,833	2,570	737	1,221	1,349

INVENTORY ACQUISITION

(millions of dollars)

	2013-14				2012-13	
	Budget	3 Month Estimate	3 Month Actual	Change from Estimate	3 Month Actual	Change
Investing in Families and Communities						
Culture	1	-	-	-	-	-
Health	47	12	2	(10)	8	(6)
Human Services	1	-	-	-	-	-
Securing Alberta's Economic Future						
Education	12	3	4	1	5	(1)
Infrastructure	52	13	4	(9)	7	(3)
Service Alberta	9	2	3	1	2	1
Transportation	40	3	5	2	3	2
Advancing World-leading Resource Stewardship						
Environment and Sustainable Resource Development	1	-	-	-	-	-
Total Inventory Acquisition	163	33	19	(14)	25	(6)

Capital Plan Highlights

Capital Plan actual results for the first three months of 2013-14 was essentially on track with the overall estimate in *Budget 2013*.

- Actual three-month Capital Plan spending was $1,404 million, $7 million lower than expected. However, there have been changes to individual components. No projects have been cancelled.
- The $113 million increase in Transportation is mainly due to accelerated progress on ring roads. The remainder of the changes reflect re-profiling of project cash flows which will likely adjust over the course of the fiscal year. In addition, 2012-13 year-end results contained some further re-profiling of project cash flows, which will be incorporated during 2013-14.
- Revenue received for capital purposes was $37 million lower than expected, mainly due to fewer-than-expected first quarter applications from municipalities under the Federal Gas Tax Fund, and to reduced ecoTrust spending.
- Direct borrowing for the Capital Plan during the first quarter was $304 million lower than expected. This was offset by a $334 million increased withdrawal from the Capital Plan financing account.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2013-14				2012-13	
	Budget	3 Month Estimate	3 Month Actual	Change from Estimate	3 Month Actual	Change
Capital Plan Spending	5,209	1,411	1,404	(7)	1,422	(18)
Capital Plan Financing						
Revenue received for capital purposes	522	105	68	(37)	91	(23)
Retained income of funds and agencies for capital purposes	84	21	21	-	15	6
Disposal of capital assets	2	-	-	-	-	-
Alternative financing (P3s)	344	86	86	-	58	28
Direct borrowing	3,190	798	494	(304)	-	494
Withdrawal from Capital Plan financing account	1,067	401	735	334	-	735
Transfer from Contingency Account	-	-	-	-	1,258	(1,258)
Total Capital Plan Financing	5,209	1,411	1,404	(7)	1,422	(18)

CAPITAL PLAN BY MINISTRY

(millions of dollars)

	2013-14				2012-13	
	Budget	3 Month Estimate	3 Month Actual	Change from Estimate	3 Month Actual	Change
Investing in Families and Communities						
Culture	54	13	2	(11)	-	2
Health	104	16	2	(14)	1	1
Human Services	10	3	1	(2)	3	(2)
Infrastructure (health facilities)	576	64	30	(34)	82	(52)
Justice and Solicitor General	87	22	6	(16)	37	(31)
Municipal Affairs	921	864	850	(14)	851	(1)
Tourism, Parks and Recreation	19	5	1	(4)	3	(2)
Transportation (municipal support)	751	75	78	3	117	(39)
Securing Alberta's Economic Future						
Education	564	127	123	(4)	85	38
Enterprise and Advanced Education	68	6	1	(5)	1	-
Infrastructure	214	24	30	6	45	(15)
Service Alberta	41	3	3	-	3	-
Transportation	1,409	124	234	110	163	71
Treasury Board and Finance	29	7	12	5	2	10
Advancing World-leading Resource Stewardship			-		-	
Agriculture and Rural Development	34	22	21	(1)	26	(5)
Energy	197	4	2	(2)	2	-
Environment and Sustainable Resource Development	126	31	7	(24)	-	7
Other						
Legislative Assembly	5	1	-	(1)	-	-
Total Capital Plan	5,209	1,411	1,404	(7)	1,422	(18)

ECONOMIC OUTLOOK

Household spending fuels economic expansion

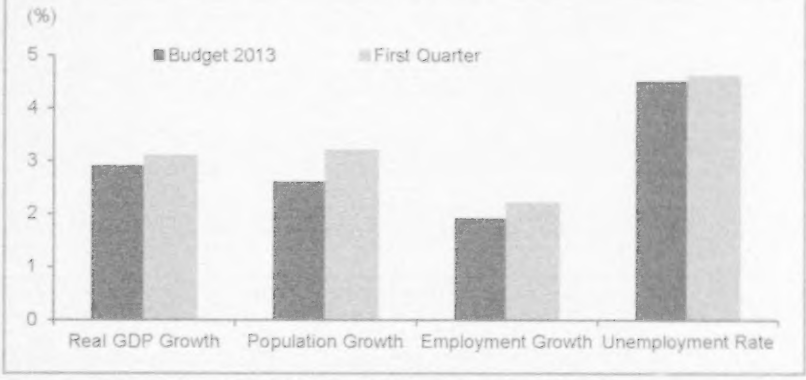
Alberta continues to power the Canadian economy, leading all provinces in real GDP and employment growth in each of the last two years. The economy is on track to grow at another solid, albeit slightly more moderate, pace in 2013.

Overall, real GDP is forecast to expand by 3.1% this year, slightly higher than the 2.9% forecast at *Budget 2013* (Figure 1). The upgrade mainly reflects increased economic activity as a result of reconstruction efforts following the flooding in southern Alberta (see pg. 15).

Prior to the flooding, events in 2013 had largely unfolded as expected at *Budget 2013* with some exceptions. Employment growth has been stronger than expected. In-migration has also surprised to the upside, contributing to a jump in new housing activity. A healthy economy combined with relatively high wages has led to large and sustained inflows of international and interprovincial migrants. These factors have offset slightly weaker-than-expected exports.

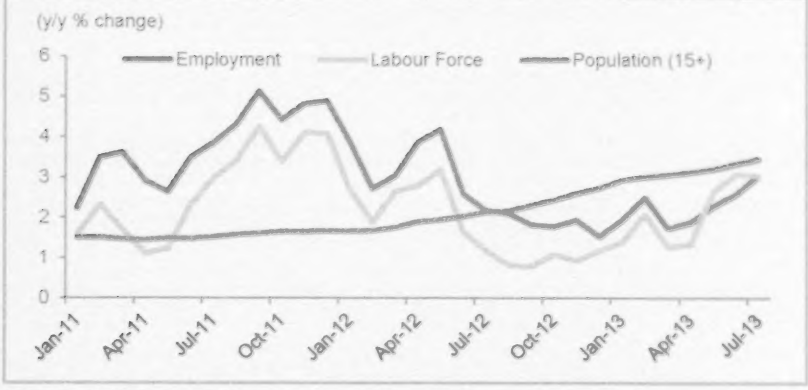
Recent developments in financial markets have generally been favourable to Alberta. In early July, the Canadian dollar fell to its lowest level in almost two years before rebounding slightly. Crude oil price differentials have also narrowed significantly, yielding a higher price to Alberta oil producers.

FIGURE 1. 2013 Forecast for Alberta Economic Indicators



Sources: Statistics Canada and Alberta Treasury Board and Finance

FIGURE 2. Growth in Alberta's Labour Market



Source: Statistics Canada

Alberta Household Sector

Population forecast revised higher as migration surges

Alberta's population is on pace to swell to over 4 million people by the end of the calendar year. Net in-migration has been trending higher since early 2011. In the first quarter of 2013, Alberta gained 27,100 people from other provinces and countries, the highest level on record. As a result, the population of Alberta is now expected to expand by 3.2% in 2013, up from 2.6% at *Budget 2013*.

The labour market remains healthy, with employment expanding 2.3% so far this year. This is down from 2012's average rate of job growth, but on pace to exceed the *Budget 2013* forecast. Employment is now expected to grow by 2.2% in 2013, up from the previous forecast of 1.9%.

Surging in-migration has increased the number of people looking for work, adding to the labour force. Over the second half of 2012 and early 2013 growth in the population far outpaced that of the labour force; more recently, labour force growth has moved more closely in line with population growth (Figure 2). Despite a stronger rate of labour force entry, Alberta has continued to create enough jobs to keep the unemployment rate low. In July, the unemployment rate fell back to 4.5% after seeing some upward

ECONOMIC OUTLOOK

pressure in May and June. Jobs in flood related reconstruction should put additional pressure on already tight labour markets in some industries, such as construction. In 2013, the unemployment rate is expected to average 4.6%.

Edmonton propels housing starts

The influx of people to Alberta has given additional strength to the housing market. Over the first seven months of 2013 housing starts have averaged 36,500 (annualized), well ahead of the *Budget 2013* forecast of 32,600.

Edmonton has been a major driver of new home construction in Alberta, with housing starts up 31% year-to-date. This has more than offset a pullback in Calgary housing starts over the same period. Flood reconstruction will likely boost new home building in Calgary for the remainder of the year.

Reflecting strong year-to-date results and flood reconstruction expected in the second half, the forecast for 2013 housing starts has been upgraded to 37,000.

Motor vehicles drive retail spending

Consumer spending has shown persistent strength in Alberta. Through June, retail sales are up 6.5% over the first half of 2012, more than three times the national increase.

Automobile sales have been especially strong (Figure 3). New motor vehicle sales topped $1 billion for the first time ever in May, rising 10.4% over the same month last year. New motor vehicle sales will likely be bolstered in the second half as flood damaged vehicles are replaced.

In light of these developments, real consumer spending is expected to expand by 4.5%, compared with 3.7% in the *Budget 2013* forecast.

Inflation returns, earnings pick up

After an extended period of very weak price increases, consumer inflation has moved about 2% in each of the last three months, lifted by higher energy and accommodation costs.

Increased demand for goods and services for reconstruction is expected to put pressure on wages and prices. As a result, inflation in 2013 is now expected to be 2.0% in 2013, up from 1.8% at *Budget 2013*.

Average weekly earnings have also picked up and are now expected to expand by 3.8%, up from 3.5% forecast at *Budget 2013*. Strong population growth has added to Alberta's labour supply and prevented even stronger increases in wages.

Reflecting higher growth in weekly earnings and employment, the forecast for primary household income growth has been revised up to 5.9%.

Alberta Business Sector

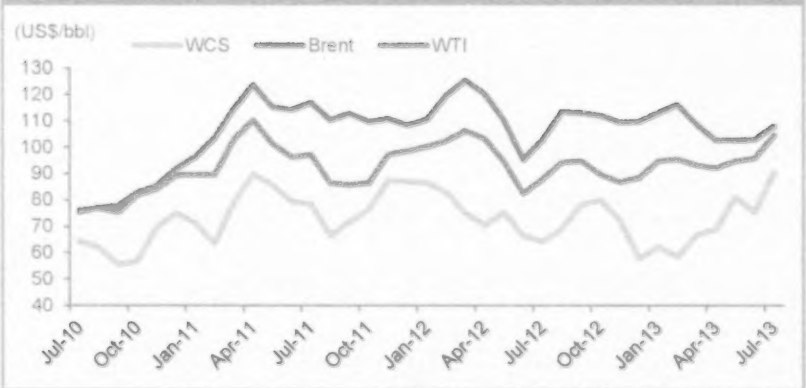
WTI nears parity with Brent

The benchmark North American oil price, West Texas Intermediate (WTI), has increased markedly in recent months (Figure 4), moving closer to the global benchmark price (Brent). The Brent- WTI differential narrowed from around $20 US/bbl in February to under $5 US/bbl in July and early August, reflecting an easing of transportation bottlenecks at Cushing.

FIGURE 3. Alberta Retail Sales Growth

Source: Statistics Canada *January–June, 2013 over January–June, 2012

FIGURE 4. Oil Prices



Source: Alberta Energy

ECONOMIC OUTLOOK

Oklahoma, including pipeline projects that have rerouted oil flows from Cushing to the Gulf Coast. The spread between WTI and the Alberta heavy oil benchmark, Western Canada Select (WCS), has also narrowed since early 2013 due to increased rail shipments and lower-than-expected bitumen production.

Based on recent developments, the forecasts for both WTI and WCS have been upgraded in FY 2013–14 to $US94.81/bbl and $CDN74.51/bbl respectively. The natural gas Alberta Reference Price forecast remains roughly in line with *Budget 2013* at CDN$3.14/GJ.

Canadian dollar falls

For the first time in almost 2 years, the Canadian dollar fell below 95 US¢/Cdn$ in early July as Federal Reserve officials speculated about tapering their quantitative easing (QE) program. It has since edged up slightly, but remains volatile. The exchange rate forecast for 2013–14 has been lowered to 98 US¢/Cdn$.

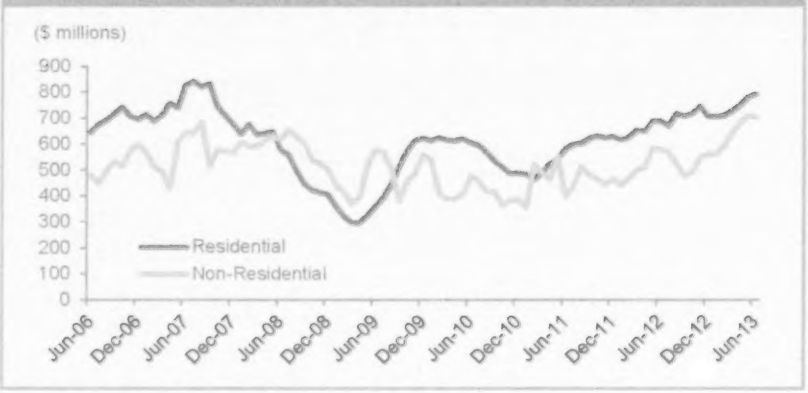
Corporate profits forecast holds steady

Higher-than-expected energy prices will provide a boost to corporate profits. However, the June flooding has substantially increased costs for many businesses, forced substantial write downs of various assets, and led to losses in the insurance industry. Higher wage growth will also weigh on profits. On balance, the forecast for growth in net corporate operating surplus is roughly in line with *Budget 2013* at 6.3% in 2013.

Investment growth expected to pick up in second half

The rebound in energy prices has supported project economics. Drilling activity has shown signs of stabilizing following a sharp drop in the second half of 2012. Gains in bitumen drilling have helped offset declines in natural gas drilling.

FIGURE 5. Alberta Building Permits*



Source: Statistics Canada *4-month moving average

Overall investment in non-residential construction has been slow in the first half of 2013, up a modest 1.9%. This pace is expected to accelerate in the second half of 2013, reflecting the recent upward trend in non-residential building permits (Figure 5) and the need to repair or replace flood-damaged buildings.

Likewise, investment in machinery and equipment (M&E) appears to have stalled in the first half over the same time last year, as indicated by a dip in international M&E imports. The need for businesses to replace flood-damaged machinery and equipment should provide a boost to investment later this year.

Exports recovering from drop in second half of 2012

After a decline in late 2012, Alberta's international goods exports have moved higher. However, export growth in the first half of 2013 has been modest, up +2.1% over the same period last year. Temporary oil supply disruptions have weighed on exports so far this year. With strong energy prices and production coming back on stream, year-over-year export growth is expected to pick up in the second half of 2013.

External Risks

Given the unstable state of the global economy and Alberta's high level of trade exposure, Alberta's economic outlook is subject to a number of risks:

- There is limited access to alternate markets for Alberta's rising oil sands production. A lack of spare pipeline capacity makes the price of oil produced in Alberta highly vulnerable to transportation and refinery disruptions.
- A further slowdown of emerging market economies, particularly in China, would weigh on global demand and commodity prices. A re-escalation of troubles in the Euro zone, which remains mired in economic stagnation, would also hurt global economic growth.
- Stronger than expected US economic growth, for example due to a rapid improvement in the housing market, is a major upside risk to the forecast.
- Sustained upward momentum in oil prices could lead to higher than forecast investment and employment growth. In addition, a further drop in the Canadian dollar could support stronger exports.

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2012–13 Actual	2013–14 3 Month Actual	2013–14 Fiscal Year Forecast	
			Budget	1st Quarter
Prices				
Crude Oil Price				
WTI (US$/bbl)	92.07	94.22	92.50	94.81
Alberta Wellhead (Cdn$/bbl) [a]	77.39	88.92	82.99	84.30
WCS @ Hardisty (Cdn$/bbl)	68.48	76.82	68.21	74.51
Natural Gas Price				
Alberta Reference Price (Cdn$/GJ)	2.29	3.18	3.07	3.14
Production				
Conventional crude oil (000s barrels/day)	556	N/A	550	592
Raw bitumen (000s barrels/day)	1,917	N/A	2,140	2,160
Natural gas (billions of cubic feet)	4,223	N/A	3,873	3,882
Interest rates				
3-month Canada treasury bills (per cent)	0.96	1.00	1.05	1.05
10-year Canada bonds (per cent)	1.85	1.97	2.30	2.65
Exchange Rate (USc/Cdn$)	99.9	97.7	99.0	98.0
Calendar Year Assumptions	**2012 Estimates**	**2013 Year-to-date**	**2013 Calendar Year Forecast**	
			Budget	1st Quarter
Gross Domestic Product				
Nominal (millions of dollars)	307,705 [b]	N/A	321,561	326,837
per cent change	4.2 [b]	N/A	4.8	6.2
Real (millions of 2007 dollars)	285,489 [b]	N/A	293,288	294,392
per cent change	3.9 [b]	N/A	2.9	3.1
Other Indicators				
Employment (thousands)	2,150	2,189 [e]	2,190	2,197
per cent change	2.7	2.3 [e]	1.9	2.2
Unemployment rate (per cent)	4.6	4.6 [e]	4.5	4.6
Average Weekly Earnings (per cent change)	3.6	3.9 [d]	3.5	3.8
Primary Household Income (per cent change)	8.6 [b]	N/A	5.4	5.9
Net Corporate Operating Surplus (per cent change)	-7.9 [b]	N/A	5.9	6.3
Housing starts (number of units)	33,396	36,454 [e]	32,600	37,000
Alberta Consumer Price Index (per cent change)	1.1	1.4 [e]	1.8	2.0
Population (July 1st, thousands)	3,874	3,965 [c]	3,973	3,997
per cent change	2.5	3.2 [c]	2.6	3.2

[a] Refers to the average price per barrel of Alberta light, medium and heavy oil.
[b] Alberta Treasury Board and Finance estimate.
[c] Population estimate as of April 1st, 2013; year-over-year growth rate
[d] January to May
[e] January to July

REVENUE IMPACTS

Impact of recent developments on government revenue

Royalty revenue forecast edges higher

The revenue outlook for 2013–14 has been revised slightly higher from *Budget 2013*, mainly reflecting a more favorable than forecast price environment.

Since *Budget 2013*, factors that have raised the royalty income forecast for 2013–14 include:

- A higher forecast for crude oil prices in North America (i.e., West Texas Intermediate). An easing of transportation constraints between Cushing, Oklahoma and the US Gulf Coast has helped reduce the discount between WTI and the World (Brent) price. The Brent price has been supported by stronger global demand and supply concerns in the Middle East.
- A smaller differential between WTI and the price Alberta oil sands producers receive for bitumen (i.e., Western Canada Select) is now forecast, reflecting strong demand for Alberta heavy crude, delays in oil sands projects reaching full production, and some alleviation of transportation constraints.
- A recent depreciation of the Canadian dollar has led to a downward revision to the exchange rate forecast to 0.98 US¢/Cdn$. A lower Canadian dollar boosts royalty revenue.

Natural gas royalties have been adjusted upward slightly due to higher expectations for prices and production, especially for natural gas liquids.

Alberta land sales are now projected to be lower than Budget due to lower price received per hectare and industry requesting less land to be posted for sale.

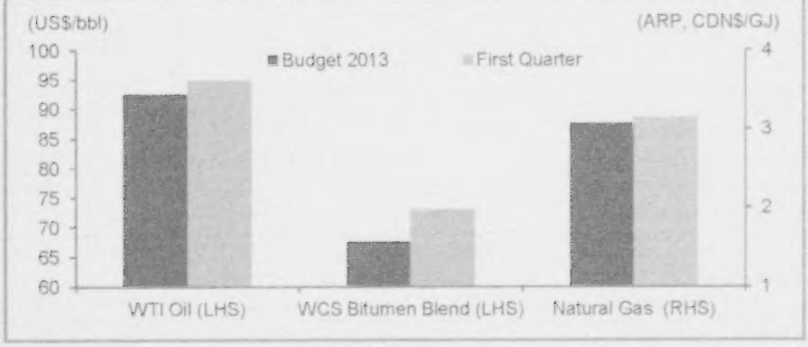
Income tax forecast improves slightly

Alberta's economy continues to perform well. Solid increases in wages and employment have buoyed household income. As a result, personal income tax revenue is expected to post another solid increase this fiscal year. The forecast for personal income tax revenue has been revised slightly higher from *Budget 2013* based on 2012 preliminary tax assessment data, as well as an upgrade to the primary household income forecast.

The business sector is benefiting from Alberta's strong economic growth as well as stronger-than-expected energy prices. However, flood related losses and an upward revision to forecast wage growth is expected to limit overall growth in corporate profits in 2013, as measured by net corporate operating surplus. The forecast for 2013–14 corporate income tax revenue is essentially unchanged from *Budget 2013*.

There are several risks facing Alberta's government revenue forecast. On the downside, a reversal of the economic recovery in Europe or a further slowdown in emerging market growth could cause energy prices to stumble. Pipeline project delays or a faster-than-anticipated increase in US oil production would put downward pressure on the WTI price. On the upside, increased supply disruptions in the Middle East or stronger-than-expected US economic growth could cause oil prices and incomes to rise.

FIGURE 1. Key Energy Price Assumptions for 2013–14



Source: Alberta Energy

ALBERTA FLOODS

Impact of the floods on Alberta economic activity

The flooding in southern Alberta in late June will have profound impacts on Alberta's affected communities for several years to come. Immediately after the floods, there were major disruptions to economic activity. Reconstruction efforts have begun to replace or repair damaged property. In terms of real GDP growth, the substantial expenditures on reconstruction are expected to more than offset temporary disruptions. The net effect is that the floods are estimated to add 0.2 percentage points to growth in 2013 and 0.4 percentage points in 2014 (Figure 1).

A positive impact on GDP does not imply the floods were "good for the Alberta economy." GDP represents the market value of all newly produced goods and services in a given time. It ignores the stock of capital and consumer goods that were previously accumulated. Damage to these stocks imposes real economic costs on people that are not reflected in GDP.

Immediate aftermath

In the two weeks following the flood, economic activity in much of southern Alberta was severely disrupted. The Cargill meat packing plant in High River, which processes about 40% of Canada's beef, was temporarily shutdown. A leak in an Enbridge pipeline caused by heavy rains precipitated precautionary shutdowns throughout much of the Enbridge pipeline system. This forced producers to curtail production, find temporary storage, or alternative transportation. Tourism was also reduced. The Calgary Stampede had the lowest attendance in over a decade and access to popular outdoor destinations in southern Alberta was hindered. Banff National Park attendance was down sharply in June.

The flood wreaked havoc on infrastructure. Both major mountain passes south of Jasper were shutdown to non-emergency traffic for several days, significantly reducing trade with BC and abroad. Several rural highways are still closed. The damages to infrastructure will take years to completely repair.

Reconstruction

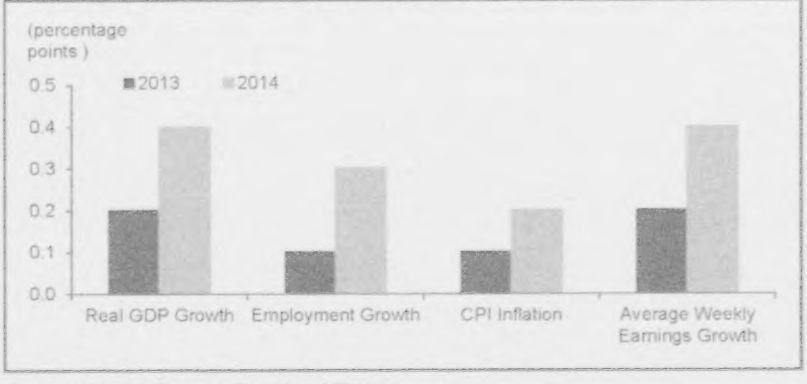
Homes were evacuated following the flood, immediately impacting about 100,000 people. Flood damage was incurred by over 14,500 dwellings. Repair and reconstruction of these dwellings will account for a significant portion of overall flood related costs.

Reconstruction costs will be shared by governments, insurance companies, and affected businesses and households. While most spending on immediate relief efforts, such as temporary housing and income support, will take place in 2013, capital expenditures will extend into 2014 and beyond. Expenditures will mostly take the form of residential and infrastructure investment, as well as retail purchases of building materials, household appliances and automobiles. The Alberta government has committed $1 billion for disaster recovery assistance with more funding expected to follow as damages are assessed. The federal government will also provide aid under the Disaster Financial Assistance Arrangement.

Many people will rely heavily on government assistance. Insurance against overland flooding is not included in basic home insurance, though automobiles are more broadly covered. The Insurance Bureau of Canada estimates that flooding in southern Alberta will generate one of the largest, if not the largest, insurable losses in Canadian history. The largest insurance payout to date was for the 1998 ice storms in Ontario and Quebec, estimated at $2 billion (in 2011 dollars).

Flood related spending will put pressure on prices and wages (Figure 1). With the labour market already fairly tight, there is little spare capacity in the economy. Increased reconstruction activity is expected to cause prices to rise and lead to some diversion of construction resources from elsewhere in the province. These constraints will limit the increase in real (price-adjusted) economic activity.

FIGURE 1. Estimated Flood Impact on Alberta Indicators



Source: Alberta Treasury Board and Finance